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DOD ENVIRONMENTAL CLEANUP

Information on Contractor Cleanup Costs and DOD Reimbursements



92-20369



**National Security and
International Affairs Division****B-246822****June 26, 1992****The Honorable John Conyers, Jr.
Chairman, Committee on Government
Operations
House of Representatives****The Honorable Barbara Boxer
House of Representatives**

In response to your request, this fact sheet provides information on the environmental cleanup costs associated with the production of military goods and Department of Defense (DOD) reimbursements to large defense contractors for such costs. In a subsequent report, we will address the results of various case studies and other related issues.

Results in Brief

Although DOD does not collect information on defense contractors' past and future cleanup costs or reimbursements, substantial amounts of data may be available to DOD. Our inquiries to DOD's Corporate Administrative Contracting Officers for the 15 largest defense contractors indicated most of them had at least partial information on past and future cleanup costs. DOD is testing a program that could help collect some of the data.

The data we obtained indicate that 10 contractors have already incurred investigation and initial cleanup costs totaling nearly \$300 million. As to future costs, we obtained at least partial projections of cleanup costs that, in total, range from \$0.9 billion to \$1.1 billion.

Four of the 15 contractors reported receiving DOD reimbursements totaling about \$59 million. Future DOD payments to contractors could increase significantly after long-term cleanup efforts begin. Four contractors have filed claims with DOD, and others may file claims in the future.

Background

The Environmental Protection Agency is charged with implementing various environmental laws. It has developed implementing regulations that outline, for example, cleanup requirements and selection and approval procedures for remedial actions.

Some defense contractors are among those being held financially responsible for the environmental cleanup of sites used for the production of military goods as well as sites used to dispose of hazardous waste

generated by the production of those goods. The contractors may be able to pass the cost of cleanup on to the federal government. The Federal Acquisition Regulation, which governs the allowability of costs under government contracts, does not specifically address environmental cleanup costs. Generally, a cost is allowed under the regulation if it meets criteria for reasonableness, allocability, and compliance with cost accounting standards and contract terms.

DOD is currently developing an environmental cost principle to provide more definitive criteria for determining the allowability of environmental cleanup costs. Implementation of the cost principle is not expected before the end of 1992.

Past and Future Environmental Cleanup Costs

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Substantial data on past and future environmental cleanup costs may be available to DOD. Our inquiries to 15 contracting officers showed that 10 individual contractors' estimates of past costs ranged from \$0.8 million to \$105 million and totaled almost \$300 million. Projections of future cleanup costs from 9 of the 15 contractors indicate that significant expenditures will be necessary to complete long-term cleanup efforts. Individual projections ranged from \$4.5 million to \$305 million. In the aggregate, future cleanup costs were estimated to be between \$0.9 billion and \$1.1 billion.

Past cleanup expenditures have included such activities as site investigations, mitigation of existing damage, and legal costs. At least eight contractors expect expenditures to increase significantly after full-scale cleanup efforts are initiated. One contractor, for example, advised us that it is spending \$9 million for investigation of one site through 1992 and projected that another \$91 million would be needed to construct and operate ground water treatment facilities for full-scale cleanup of this site. Likewise, another contractor estimated that it had spent \$14 million on site investigation and initial cleanup and estimated future costs of \$110 million to complete cleanup efforts.

Two contractors reported future costs as a range of possible costs, reflecting the difficulty in making long-term cost projections when environmental laws, cleanup standards, and technology are subject to change. Because of these uncertainties, most cost estimates are projected for only 2 to 4 years. Only one contractor provided a long-term estimate of 25 to 45 years.

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These past costs and projections are conservative because some contractors could provide only partial information. For example, one contractor may be responsible for environmental cleanup at 100 sites involved with DOD contracts but could provide only partial information on 29 of the sites in the available time. Another contractor reported cleanup costs for approximately 100 sites but was unable to isolate the costs for sites involved with DOD contracts.

According to some contractor officials, projected environmental cost information is sensitive and public release of the information could affect their business competitiveness or ongoing litigation with insurance companies and others.

DOD does not have a system for collecting past and projected environmental cleanup costs that its contractors may claim. However, DOD is testing a Defense Corporate Executive program, which could provide more effective overview of corporate-wide activities and costs, including those related to environmental issues.

DOD Payments for Cleanup

Four of the 15 contractors reported that DOD had made payments ranging from \$0.5 million to \$51.8 million for at least part of their cleanup costs. These payments totaled about \$59 million. Future payments to contractors may increase after the contractors begin more extensive cleanup efforts.

Further, DOD payments could increase in the future as more contractors seek reimbursement. Only 4 of the 15 contractors have filed claims for reimbursement with DOD, but others have not ruled out filing claims in the future.

Scope and Methodology

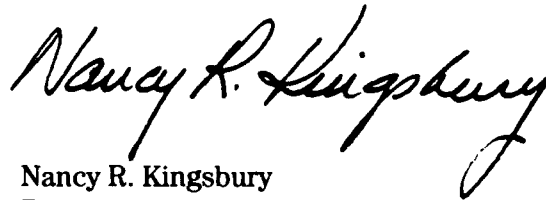
We requested information from DOD on past and future environmental cleanup costs and the amount of reimbursements expected to be made; however, DOD stated it could not fulfill our request. We then contacted DOD Corporate Administrative Contracting Officers at the 15 largest defense contractors of 1991, who in some cases contacted contractor officials to provide the information requested. We did not verify the cost information obtained for the 15 contractors. We conducted our work in April and May 1992.

As you requested, we did not obtain fully coordinated DOD comments on a draft of this fact sheet. However, we discussed the information in this fact

sheet with DOD program officials and incorporated their comments where appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 14 days after its issue date. At that time, we will send copies to other congressional committees; the Secretary of Defense, and the Director of the Office of Management and Budget. We will also make copies available to others upon request.

Please contact me at (202) 275-4268 if you or your staffs have any questions concerning this fact sheet. Major contributors are listed in appendix I.



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